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## August 2011: Market Review

The major U.S. equity indexes had their fourth consecutive month of declines in August as weakening economic data, uncertainty over European sovereign debt, and a downgrade in U.S. debt by a major rating agency shook investors. Despite being down nearly 13% in the first 9 days of the month, a strong month end rally saw the Dow Jones Industrial Average end August down “only” (3.96%), keeping its year-to-date return in positive territory, up 2.14%. The S&P 500 Index lost (5.43%) in August, moving its year-to-date return to (1.77%). The NASDAQ Composite was down (6.42%) (price change only) and has dropped (2.77%) so far in 2011.

Economic news was mixed in August. Congress managed to turn the historically routine task of raising the debt capacity of the U.S. into a full blown market crisis before agreeing to a modest package of spending cuts. After watching the political theatre and being disappointed in the amount of spending cuts, Standard and Poor’s downgraded the credit quality of U.S. government debt to AA+. Federal Reserve Chairman Ben Bernanke announced that the Fed plans to keep target rates for overnight bank loans low through at least mid-2013 in its ongoing efforts to stimulate growth. U.S. unemployment held steady at above 9% and consumer confidence fell to its lowest level since April 2009. The S&P/Case-Shiller 20-city home price index increased for the third straight month in June, but prices may fall again as the typically strong summer sales season ends. Among commodities, barrels of WTI crude oil closed the month around \$88, while gold prices rose to a record high of more than \$1,900 per troy ounce before receding to \$1,830 by month-end.

Growth style equities continued to outperform value style equities year-to-date across all capitalizations. Among large cap stocks, the Russell 1000 Growth lost (5.28%) in August and has gained 0.18% for the year, while the Russell 1000 Value Index fell (6.24%) and is down (3.99%) for the year. For small cap stocks, the Russell 2000 Growth Index decreased (8.57%) during the month and has dropped (4.60%) year-to-date, while the Russell 2000 Value Index lost (8.83%) and has fallen (8.52%) thus far in 2011. The Russell Midcap Index dropped (6.88%) for the month and is down (3.00%) year-to-date.

International equity indexes had their worst month of 2011 in August. The MSCI EAFE Index fell (9.03%) in August and has dropped (6.02%) year-to-date. Europe was particularly weak, as the MSCI Europe Index lost (10.02%) and is now negative for the year, down (5.20%). The MSCI Emerging Markets Index fell (8.94%) for the month and is down (8.55%) year-to-date.

Fixed income performance was positive across most bond categories in August as investors sought the relative safety of bonds. The Barclays U.S. Aggregate Index gained 1.46% during the month and is up 5.88% year-to-date. Ironically, despite S&P’s downgrade, the Barclays U.S. Treasury Composite Index had its strongest month of 2011 and gained 2.78%, improving its year-to-date gain to 6.98%. Among longer-term bonds, the Barclays Treasury 20+ Year Index rose 9.97% for the month, leaving it with a gain of 16.96% year-to-date. The Barclays Corporate High Yield Index was negative for the month, falling (4.00%). Its year-to-date return is 1.94%.

The current volatility in equities is testing equity investors’ mettle, as market swings of multiple percentage points in a single day occurred several times in August. While markets regained their footing, concerns about world economic growth, the solvency of major European countries and banks, and the long-term implications of the U.S. fiscal situation remain as major issues to sort out for investors trying to determine their future strategies.